

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57965

CITY OF POMEROY

Garfield County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 17, 1997

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CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Pomeroy, Garfield County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Pomeroy is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the financial statements of the City of Pomeroy, Garfield County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on general requirements and the Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Internal Controls For Accounting Duties Should Be Established And Implemented

During our audit of the following material accounting systems, we noted that the segregation of duties is inadequate to ensure that accounting records are accurately maintained.

Utility Accounting) The city clerk prepares and mails the monthly billings. The clerk also receives the payments for the utility bills, prepares the receipt, and posts the payment to the utility system and prepares and posts the noncash adjustments. There is no supervisory or secondary review of these procedures.

Other Cash Receipts) The city clerk collects the cash and prepares receipts for other moneys collected at city hall. Along with the utility payments, the money received is placed in an open area for the city treasurer to retrieve. The city treasurer also receives money in the mail and prepares a treasurer's receipt. The city treasurer prepares bank deposits for all money received and takes the deposit to the bank daily. The city treasurer performs all investment activity and receipts the interest received on investments. There is no review of the city treasurer's work. Both the city clerk and city treasurer have full computer access capabilities to the billing and receipting systems. All have the ability to make noncash adjustments, also.

Expenditures) The city clerk is responsible for processing and the accounting of vouchers and payroll. The city council approves vouchers. Again, there is no computer access restriction to the systems that process these transactions. The city treasurer and her deputy have access capability to any of the expenditure functions.

Disbursements) The city treasurer has complete control of the city's checkbook. She prepares checks, redeems all warrants, performs all investment activities as discussed above, prepares the deposits, and performs the bank reconciliation. There is no review of any of the disbursement activity. Once the receipts are given to the treasurer for deposit, no one reviews the bank statement or deposit slip. Further, the city treasurer is responsible for posting the redeemed warrants and any other disbursement activity to the general ledger processed by the computer.

Without supervisory approval or review and in the absence of any access restrictions to the accounting system, the city substantially increases the risk that errors or irregularities could occur and not be detected in a timely manner.

We recommend that city officials establish and implement internal controls to ensure that there is segregation of duties and to restrict computer access to authorized personnel only.

Auditee's Response

Internal controls to address the areas of accounting duties are being established and implemented by the Mayor and audit committee. We are addressing each of the areas you have listed and should have these in place before the end of the year. As we put these controls and safeguards in place we will keep your office informed.

Auditor's Concluding Remarks

We appreciate the city's timely response to our audit finding. We will review this area in our next regularly scheduled audit.

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Pomeroy, Garfield County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Pomeroy for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 25, 1996, on our consideration of the city's internal control structure and a report dated November 25, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Fund Resources And Uses Arising From Cash Transactions
For The Fiscal Year Ended December 31, 1995

	Fund 001 - Current Expense		Fund 101 - City Street	
	Budget	Actual	Budget	Actual
Beginning Cash and Investments	\$ 44,094	\$133,593	\$23,798	\$ 31,122
REVENUES AND OTHER SOURCES:				
310 Taxes	273,412	298,340	-0-	-0-
320 Licenses and Permits	7,920	13,042	-0-	708
330 Intergovernmental	82,867	94,879	34,209	34,683
340 Charges for Services	75	123	-0-	-0-
350 Fines and Forfeits	9,500	9,563	-0-	-0-
360 Miscellaneous	9,000	16,000	100	2,964
390 Other Financing Sources	34,218	6,072	32,223	32,223
Total Revenues and Other Sources				
Total Resources	461,086	571,612	90,330	101,700
OPERATING EXPENDITURES				
510 General Government	92,265	71,807	-0-	-0-
520 Security of Persons & Property	234,121	214,786	-0-	-0-
530 Physical Environment	10,034	3,795	-0-	-0-
540 Transportation	34,218	6,072	74,907	66,060
550 Economic Environment	-0-	-0-	-0-	-0-
560 Mental & Physical Health	14,708	14,467	-0-	-0-
570 Culture and Recreational	-0-	-0-	-0-	-0-
Total Operating Expenditures	385,346	310,927	74,907	66,060
593-93 Debt Service	-0-	-0-	-0-	-0-
594-96 Capital Outlay	-0-	-0-	-0-	-0-
Total Expenditures	385,346	310,927	74,907	66,060
597 Other Financing Uses	75,740	82,304	15,423	11,358
Total Expenditures and Other Uses	461,086	393,231	90,330	77,419
EXCESS (DEFICIT) OF REVENUES OVER USES				
380 Non-Revenues	-0-	7,743	-0-	-0-
580 Non-Expenditures	-0-	8,138	-0-	-0-
Ending Net Cash and Investments	\$ -0-	\$177,986	\$ -0-	\$ 24,281

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF POMEROY
Fund Resources And Uses Arising From Cash Transactions
For The Year Ended December 31, 1995

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

103 - Park		104 - Cemetery	
Budget	Actual	Budget	Actual
\$14,402	\$15,072	\$ 6,281	\$16,058
68,997	67,330	27,706	29,653
83,399	82,402	33,987	45,711
83,399	76,273	33,987	34,055
-0-	6,129	-0-	11,656
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$ -0-	\$ 6,129	\$ -0-	\$11,656

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

106 - Contingency		107 - Emergency Services	
Budget	Actual	Budget	Actual
\$6,200	\$11,846	\$4,649	\$4,613
372	-0-	4,605	4,604
6,572	11,846	9,254	9,217
-0-	-0-	9,254	4,940
6,572	11,846	-0-	4,277
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$ -0-	\$11,846	\$ -0-	\$4,277

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

108 - Library		201 - Water Bond Reserve	
Budget	Actual	Budget	Actual
\$1,189	\$1,789	\$ -0-	\$39,655
411	448	2,100	1,506
1,600	2,237	2,100	41,161
1,600	1,478	-0-	-0-
-0-	759	2,100	41,161
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$ -0-	\$ 759	\$2,100	\$41,161

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF POMEROY
Fund Resources And Uses Arising From Cash Transactions
For The Year Ended December 31, 1995

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

205 - Water Bond Redemp.		206 - LID	
Budget	Actual	Budget	Actual
\$ -0-	\$15,922	\$ -0-	\$ -0-
30,000	16,002	5,600	2,360
30,000	31,924	5,600	2,360
30,000	29,850	5,600	2,360
-0-	2,074	-0-	-0-
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$ -0-	\$ 2,074	\$ -0-	\$ -0-

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

207 - GO Bond		121 - PWTF Street Rehab.	
Budget	Actual	Budget	Actual
\$1,000	\$ 404	\$ -0-	\$ 209
4,740	4,739	6,594	6,231
5,740	5,143	6,594	6,440
4,740	4,468	6,594	6,230
1,000	675	-0-	210
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$1,000	\$ 675	\$ -0-	\$ 210

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

335 - Capital Imp.		338 - 5th Street WW Constr.	
Budget	Actual	Budget	Actual
\$15,000	\$17,769	\$ -0-	\$ -0-
2,000	4,673	48,000	45,059
17,000	22,442	48,000	45,059
-0-	-0-	48,000	45,059
17,000	22,442	-0-	-0-
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$17,000	\$22,442	\$ -0-	\$ -0-

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF POMEROY
Fund Resources And Uses Arising From Cash Transactions
For The Year Ended December 31, 1995

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

339 - Park Construction		340 - Pataha Creek Wall	
Budget	Actual	Budget	Actual
\$ -0-	\$ -0-	\$-0-	\$ -0-
60,000	78,564	-0-	2,126
60,000	78,564	-0-	2,126
60,000	78,564	-0-	2,126
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$ -0-	\$ -0-	\$-0-	\$ -0-

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

342 - 15th Street		345 - Intergovernment	
Budget	Actual	Budget	Actual
\$-0-	\$ -0-	\$ -0-	\$ 7,522
-0-	187,526	52,000	37,077
-0-	187,526	52,000	44,599
-0-	183,520	52,000	41,320
-0-	4,006	-0-	3,279
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$-0-	\$ 4,006	\$ -0-	3,279

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

350 - 3rd Street Bridge		352 Fire Truck Reserve	
Budget	Actual	Budget	Actual
\$ -0-	\$ 5,932	\$ 9,500	\$60,071
5,000	25,007	1,000	1,180
5,000	30,939	10,500	61,251
5,000	28,623	-0-	-0-
-0-	2,316	10,500	61,251
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$ -0-	\$ 2,316	\$10,500	\$61,251

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF POMEROY
Fund Resources And Uses Arising From Cash Transactions
For The Year Ended December 31, 1995

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

362 - Solid Waste Reserve		401 Utilities	
Budget	Actual	Budget	Actual
\$29,000	\$29,906	\$ 40,303	\$ 44,935
39,000	49,913	350,105	345,501
68,000	79,819	390,408	390,436
29,000	-0-	390,408	313,310
39,000	79,819	-0-	77,126
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$39,000	\$79,819	\$ -0-	\$ 77,126

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

410 - Solid Waste		653 - Library Endowment	
Budget	Actual	Budget	Actual
\$15,960	\$31,468	\$-0-	\$6,522
32,317	31,160	400	-0-
48,277	62,628	400	6,522
32,317	62,628	400	-0-
15,960	-0-	-0-	6,522
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
\$15,960	\$ -0-	\$-0-	\$6,522

Beginning Net Cash and Investments
Revenues and Other Financing Sources
 Total Resources
Expenditures and Other Financing Uses
Excess (Deficit) of Resources Over Uses
Non-Revenues
Non-Expenditures
Ending Net Cash and Investments

654 - Cemetery Endowment			
Budget	Actual	Budget	Actual
\$ -0-	\$100,165		
8,400	6,580		
8,400	106,745		
2,700	-0-		
5,700	106,745		
-0-	-0-		
-0-	-0-		
\$5,700	\$106,745		

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF POMEROY
Notes To Financial Assistance
January 1, 1995 Through December 31, 1995

Note 1) Summary Of Significant Accounting Policies

The City of Pomeroy was incorporated in 1899 and operates under the laws of the state of Washington applicable to a third class city with a mayor-council form of government. The following is a summary of the more significant policies, including identification of those policies which result in material departures from generally accepted accounting principles (GAAP):

a. Reporting Entity

The City of Pomeroy is a general purpose government and provides public safety, fire prevention, street improvements, parks and general administration. In addition, the city owns and operates a water system.

b. Basis Of Presentation) Fund Accounting

The accounts of the city are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The city's resources are allocated to and accounted for in individual funds depending on what they are to be spent for and how they are controlled. The following are the fund types and account groups used by the city:

GOVERNMENTAL FUND TYPES:

Governmental fund operating statements focus on measuring changes in financial position, rather than net income; they present increase and decrease in net current assets.

Current Expense Fund

This fund is the general operating fund of the city. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

Special Revenue Funds

These funds account for revenues derived from specific taxes, grants, or other sources which are designated to finance particular activities of the city. These funds include enterprise operations which, under generally accepted accounting principles, would be accounted for as proprietary funds.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest, and related costs on general long-term debt.

Capital Projects Funds

These funds account for the financial resources which are designated for the acquisition and construction of general government capital improvements.

FIDUCIARY FUND TYPE:

Fiduciary funds account for assets held by the city on behalf of others.

Agency Funds

These fund are used to account for cash and other assets received and held by the city acting in the capacity of custodian.

ACCOUNT GROUP:

General Long-Term Debt

The city accounts for its long-term debt in a bond register and other records and the results are reported in the accompanying long-term debt schedule.

c. Basis Of Accounting

Basis of accounting refers to the timing when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Accounting records for the city are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 RCW. The city uses the revenue and expenditure classifications contained in the *Budgeting, Accounting, and Reporting System* (BARS) manual prescribed by the State Auditor.

In governmental and fiduciary funds, revenues are recognized only when received in cash, rather than when measurable and available, and expenditures are recognized when warrants are issued rather than when the expenditures are incurred. Purchases of fixed assets are expensed during the year acquired but no general fixed assets account group is established. This prescribed accounting system also permits the city to account for its utility funds on the cash basis of accounting rather than on the full accrual basis, which is a departure from generally accepted accounting principles. For these funds, fixed assets are not capitalized, depreciation expense is not allocated, inventory is expensed when purchased rather than consumed, and long-term debt is not accounted for in the Enterprise Fund.

d. Budgets And Budgetary Accounting

(1) Scope Of Budget

Annual appropriated budgets are adopted for all funds. Budgetary accounts are integrated in fund ledgers for all budgeted funds and the financial statements include budgetary comparisons for all governmental funds.

Annual appropriated budgets are adopted at the level of the fund, except in the General Fund, where the budget is appropriated at the department level. Budgets, as appropriated, constitute the legal authority for expenditures. Expenditures may not exceed appropriations at the fund or department level, as applicable. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and

activities by object level. Annual appropriations for General and Special Revenue Funds lapse at year end.

(2) Procedures For Adopting The Original Budget

The city's budget procedures are mandated by Chapter 35.33 RCW.

(a) Prior to November 1, the clerk-treasurer submits a proposed budget to the city council. This budget is based on priorities established by the council and estimates provided by city departments during the preceding months, and balanced with revenue estimates made by the clerk-treasurer.

(b) The council conducts public hearings on the proposed budget in December.

(c) The council makes its adjustments to the proposed budget and adopts, by ordinance, a final balanced budget no later than December 31.

(d) Within 30 days of adoption, the final budget is available to the public.

(3) Amending The Budget

The clerk/treasurer is authorized to transfer budget amounts within the appropriated level of the department or fund. However, any revisions that would alter the total expenditures of the department or fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

When the council determines that it is in the best interest of the city to increase or decrease the appropriation for a particular department or fund, it may do so by ordinance approved by a simple majority after holding two public hearings.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

e. Assets, Liabilities And Equities

(1) Cash

It is the city's policy to invest all temporary cash surpluses. These short-term investments are carried as "Treasurer's Cash." At December 31, 1994, there was \$228,190 of short-term residual investments of surplus cash. The city is not required to present financial statements for Claims and Payroll Clearing. This amount is included in the net cash and investments shown on the statements of Fund Resources and Uses Arising from Cash Transactions. The interest on these investments is credited to the Current Expense Fund.

The city's deposits at year end are entirely covered by federal depository insurance and the state Public Deposit Protection Commission.

(2) Investments

As required by state law, all investments of the city's funds are deposits with Washington State banks and savings and loan institutions.

The city's investments are categorized to give an indication of the risk assumed at year end. Category 1 includes investments that are either insured, registered or held by the city in the

city's name. Category 2 includes uninsured and unregistered investments which are held by the brokers or dealer's trust department or agent in the city's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or its trust department or agent but not in the city's name.

	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Time Deposits	\$469,131	\$469,131	\$469,131

(3) Receivables

The Local Improvement District (LID) assessments are recorded in the LID registers when levied. Prior balance did not agree because of difference in interest on an account.

Special assessments are recorded in special assessment registers when levied.

The assessments are liens against the property and subject to foreclosure. The city financed LID 83-01 by borrowing from the Cemetery Endowment Fund in 1983 rather than issue special assessment bonds.

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Interfund Loans and Advances Payable</u>			
		<u>1/1/95</u>	<u>New Loans</u>	<u>Repayments</u>	<u>12/31/95</u>
LID 83-01	Cemetery Endowment	\$3,456	\$-0-	\$2,360	\$-0-*

* Amount includes interest accrued but not paid.

* Note: Council forgave interest.

(4) Inventories

Inventories in governmental funds are not recorded.

(5) Accumulated Unpaid Employee Leave Benefits

Vacation pay, which may be accumulated up to approximately 45 days, is payable upon resignation, retirement, or death. Sick leave may accumulate up to approximately 90 days, but is not payable upon resignation or death. Sick leave is payable upon retirement if a person has reached the age of 60 or has been employed by the City of Pomeroy for 20 years.

Unused vacation and sick leave as of December 31, 1995, is 2,043 vacation hours and 4,981 sick hours, respectively. The potential liability for vacation leave payout is approximately \$6,348.

f. Revenues, Expenditures And Expense

(1) Governmental funds and fiduciary funds use the cash basis of accounting where revenues are recognized when received in cash and expenditures are recognized when paid, including those properly chargeable against the report year's budget appropriations as required by state law. This is a departure from generally accepted accounting principles which require revenue and expenditure recognition on the modified-accrual basis of accounting.

(2) Proprietary funds use the modified cash basis of accounting rather than the full accrual basis which is a departure from generally accepted accounting principles.

(3) Interfund transactions are classified as follows:

(a) Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in-lieu-of taxes, are similarly treated when they involve other funds of the city.

(b) Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."

(c) Contributions to the capital of enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

(4) The accompanying Schedule of Financial Assistance provides a listing of all state assistance programs in which the city participates and summarizes the city's grant transactions for 1995.

(5) Nonrevenues and Nonexpenditures

The city's nonrevenues and nonexpenditures consist of interfund loan proceeds and repayments and investment proceeds and purchases.

Note 2) Stewardship, Compliance And Accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no material expenditures exceeding legal appropriations in any of the funds of the city.

Note 3) Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments is due
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due

Property tax revenues are recognized when received from the county.

The city's regular levy for 1995 was \$3.375 per \$1,000 of assessed valuation of \$28,748,000 for a total levy of \$97,025.

Note 4) Fixed Assets And Depreciation

a. General Fixed Assets

General fixed assets are long-lived assets of the city as a whole and are recorded as expenditures when purchased. No general fixed assets account group is established which is a departure from generally accepted accounting principles.

Note 5) Pension Plans

All eligible city employees, excluding police, are covered by a private retirement plan administered by Waddell-Reed. Substantially all of the city's full-time and the qualifying part-time police department employees participate in the statewide local government retirement system administered by the Department of Retirement referred to as the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF). The city's contribution, 6.20 percent for Plan I and 5.25 percent for Plan II of covered payroll, for the year ending December 31, 1995 of \$5,080 represents its full liability under the system, except that future rates may be adjusted to meet the system needs.

The plan administered by the investment firm of Waddell-Reed is a very simple investment account set up in the name of the employee with contributions to the plan originating solely from the city. The city contributes an amount equal to 6 percent of the employees' monthly salary to the employees' investment account. The city's contribution to the employee benefit plan for 1995 was \$12,511. The city's contribution to LEOFF for 1995 was \$5,080.

Note 6) Risk Management

The City of Pomeroy is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Currently, 108 cities have joined the pool.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. The pool provides the following forms of group purchased insurance coverage for its members: Property, liability, vehicle liability, other mobile equipment, boiler and machinery, bonds of various types, excess liability and public official liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$50,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$49,000. Insurance carriers cover insured losses

over \$50,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$49,000 portion of the deductible.

Property insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$1,500.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Each new member now pays the pool an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the pool for a minimum of one year, and must give notice before December 31 before terminating participation the following September 1. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, Inc., which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 1995, were \$19,619.

The pool is governed by a board of directors which is comprised of one designated representative from each participating member. A management committee of 11 members is selected by the membership from seven areas of the state on a staggered term basis and is responsible for conducting the business affairs of the pool. The management committee has contracted with Canfield & Associates, Inc., to perform day to day administration of the pool. This pool has no employees.

Note 7) Long-Term Debt

Long-Term Debt

The accompanying Schedule of Long-Term Debt provides a listing of the outstanding debt of the city and summarizes the city's debt transactions for 1995. The annual requirements to amortize outstanding debt, including interest, are as follows:

	General Obligation Bonded Debt	General Obligation Other Debt	Revenue Bonded Debt	Revenue Other Debt	Total Debt
1996	\$ 4,398	\$ 12,662	\$ 29,450	\$-0-	\$ 46,510
1997	5,328	12,384	29,050	-0-	46,762
1998-2022	<u>67,588</u>	<u>106,455</u>	<u>733,275</u>	<u>-0-</u>	<u>907,318</u>
Totals	<u>\$77,314</u>	<u>\$131,501</u>	<u>\$791,775</u>	<u>\$-0-</u>	<u>\$1,000,590</u>

At December 31, 1995, the city had \$30,000 available in debt service funds to service the general bonded debt.

Note 8) Contingencies

There are four claims against the city as of the date of issuance of this report.

Note 9) Subsequent Events

No events occurred after December 31, 1995, which would have a material impact on the next or future years.

CITY OF POMEROY
Schedule Of Long-Term Debt
General Obligation Debt
For The Fiscal Year Ended December 31, 1995

I.D. No. And Class Description	Purpose	Date Of Issue	Date Of Final Maturity	Interest Rate(s)	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed This Period	Ending Outstanding Debt
PWTF	Street Rehab.	5/89	2001	3%	\$60,501	\$36,042	\$-0-	\$5,149	\$30,893
GO Bond	Shop	5/89	2009	7%	51,500	47,000	-0-	1,000	46,000
PWTF	Pataha Wall	7/93	2013	1%	75,937	33,952	-0-	1,787	32,165
Textron	Lease Agreement	2/95	1999	.70%	15,954	-0-	-0-	3,675	12,279

CITY OF POMEROY
Schedule Of Long-Term Debt
Revenue Debt
For The Fiscal Year Ended December 31, 1995

I.D. No. And Class Description	Purpose	Date Of Issue	Date Of Final Maturity	Interest Rate(s)	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed This Period	Ending Outstanding Debt
25211 FmHA	Water Improvement	7/82	7/22	5%	\$500,000	\$439,000	\$-0-	\$8,000	\$431,000

CITY OF POMEROY
Schedule Of Long-Term Debt
Assessment Debt
For The Fiscal Year Ended December 31, 1995

LID. No. And Class Description	Purpose	Date Of Issue	Date Of Final Maturity	Interest Rate(s)	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed This Period	Ending Outstanding Debt
LID 83-1	Sidewalks	1984	1995	10.7%	\$90,140	\$3,456	\$-0-	\$2,360	\$-0-

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the financial statements of the City of Pomeroy, Garfield County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 25, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Pomeroy taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the financial statements of the City of Pomeroy, Garfield County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 25, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the financial statements of the City of Pomeroy, Garfield County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 25, 1996.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance program for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Pomeroy had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor
City of Pomeroy
Pomeroy, Washington

We have audited the financial statements of the City of Pomeroy, Garfield County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated November 25, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Purchasing
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Matching, level of effort, earmarking
 - Reporting
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Receiving
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Cash management
 - Relocation assistance and real property acquisition
 - Subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Special requirements

During the fiscal year ended December 31, 1995, the city had no major federal financial assistance programs and expended 65.6 percent of its total federal financial assistance under the following nonmajor federal financial assistance program: Department of Agriculture, Forest Service, Rural Community Development Program (CFDA 10.670).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the city's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 25, 1996

CITY OF POMEROY
Garfield County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. The City Should Improve Monitoring For Compliance With The Davis-Bacon Act

The city could not provide evidence of the monitoring performed for the \$60,000 construction grant awarded for the renovation of the Pomeroy City Park. This project was funded by a grant (CFDA 10.670) from the U.S. Department of Agriculture.

General administrative requirements for all federal assistance programs require compliance with the Davis-Bacon Act. That requirement states in part:

When required by federal grant program legislation, all laborers and mechanics employed by the contractors or subcontractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. [40 Stat 1494, Mar. 3, 1921, Chap. 411, 40 U.S.C. 276A-276A-5].

Staff turnover in the city's public works department may be the cause for the lack of monitoring procedures performed. No monitoring records could be located in the public works department by the newly hired public works director. City staff believed the Davis-Bacon requirements may have been reviewed and monitored by the engineering firm the city contracted with to oversee the project. However, as of the date of this audit report, the engineering firm had not responded to city officials' request for the records, if any.

Without an effective system to monitor contractor compliance with prevailing wage requirements the city cannot be assured that the prevailing wage rates were paid to employees of the contractor.

We recommend that the city obtain the necessary documentation to determine if prevailing wages were paid for the project.

We further recommend the city improve monitoring of future contracts to ensure compliance with prevailing wage requirements.

Auditee's Response

We are trying to obtain the documents for the city park renovation project. Future contracts will be required to have the documents delivered to city hall upon start-up of the projects. I have notified the engineers that of the current projects that I need to have these on hand ASAP.

Auditor's Concluding Remarks

We thank the city for their timely response to our finding. We will review this area for compliance with federal regulations in our next regularly scheduled audit.